# WEEKLY ECONOMIC REVIEW

**DECEMBER 9, 2005**

The Bank of Canada increased its overnight lending rate to 3.25 per cent from 3 per cent earlier this week, its third consecutive increase since September. Further interest rate increases are expected over the near term as the Canadian economy is operating at full capacity and the Bank is concerned about inflationary pressures. The U.S. Federal Reserve Board is expected to increase interest rates on December 13, 2005 to 4.25 per cent.

With the Canada-United States interest rate differential improving and the recent rise in oil prices, the Canadian dollar gained support this week and traded above 86 cents US all week. This was the first time the Canadian dollar traded above 86 cents for the entire week since January 1992.

Statistics Canada reported Canada's labour productivity improved to a four year high in the third quarter of 2005, increasing 0.8 per cent from the pervious quarter. This increase followed two quarters of flat productivity growth.

Alberta residential construction was full steam ahead in November, with 38,800 (seasonally adjusted at annual rates) housing starts registered. Non-residential construction remains robust with building permits up 34 per cent in October and up over 80 per cent so far this year. October did see a 9.8 per cent annual increase in new home prices in Alberta, up from a 7 per cent increase in September. Non-residential building prices retracted somewhat from a 7.1 per cent increase in the second quarter to 6.9 per cent in the third.

**Cdn Dollar (C¢/US$)**

| | |
|---|---|
| Dec 09, 2005 | 86.4¢ |
| Dec 02, 2005 | 86.0¢ |
| 2005-06 YTD | 82.7¢ |

**WTI Oil SUS/bbl**

| | |
|---|---|
| Dec 09, 2005 | $60.66 |
| Dec 01, 2005 | $58.47 |
| 2005-06 YTD | $58.82 |

**Nymex Natural Gas CS/mcf***

**December Contract**

| | |
|---|---|
| Dec 09, 2005 | $17.27 |
| Dec 02, 2005 | $15.29 |

*Estimate based on Nymex Futures Market Price

Even though natural gas inventories saw a smaller than expected drawdown this week, a winter storm in the northern United States drove natural gas prices to a new record on Friday. If continued, a colder-than-normal winter is likely to keep natural gas prices high over the coming months as markets remain concerned about winter natural gas supplies meeting demand.

| Economic Indicators Released this Week | Reference Period | Month/Previous Month | Month/Previous Year's Month | Year-to-date[1] |
|---|---|---|---|---|
| **Housing Starts[2]** | **November** | | | |
| Alberta | 38,800 | 2.6% | -5.1% | 9.6% |
| Canada | 222,100 | 7.5% | -9.2% | -3.7% |
| **Building Permits (Millions)** | **October** | | | |
| Alberta | 945.3 | 21.1% | 40.1% | 40.8% |
| Canada | 5,237.9 | 1.2% | 12.0% | 10.9% |
| **Rigs Drilling** | **November** | | | |
| Alberta | 491 | 14.2% | 13.1% | 15.8% |

*Source: Canadian Mortgage and Housing Corporation, Statistics Canada and Canadian Association of Oilwell Drilling Contractors*

[1] *Year-to-date 2005 compared to the same time period in 2004. For example: January-October 2005 versus January-October 2004*

[2] *Seasonally Adjusted at Annual Rates*